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JAPAN-U.S. AID COOPERATION: THE PROSPECTS FOR COLLABORATION

Summary

At a time when the United States and Japan face difficulties in their bilateral relationship, cooperation on development assistance is seen as a promising prospect for a constructive alliance. Each nation potentially could benefit from the other's foreign aid experience; both aid programs have gaps their counterparts could help fill. Each government has emphasized the increasing importance of aid cooperation, which has led to dialogue on several levels and successful coordination of broad aid initiatives, at least in Washington's view.

Most observers concur that aid coordination at some level is a worthy goal, if for no other reason than to keep the programs of the two top aid donors from working at cross-purposes. Policymakers in both countries view aid cooperation as a means of leveraging the political and the humanitarian objectives of development assistance while serving as a positive element in bilateral relations. Americans, in particular, see cooperation as a way of channeling the strengths of both programs toward such specific ends as global environmental problems or creating commercial opportunities for U.S. firms.

Yet many experts believe that the potential for collaboration is much greater than what has been accomplished so far. They cite the diversity of the two countries' foreign aid programs as a particular roadblock to further cooperation. A successful aid alliance would require give-and-take from both sides in their approach to cooperation. The current reexamination by both Japan and the United States of their individual programs presents an opportunity for reevaluating goals. Domestic calls to restructure

U.S. foreign aid have intensified in recent years, and several proposals have been made with an eye toward Japan. Japan's recent replacement of the United States as the world's largest donor of official development assistance presents additional challenges to Tokyo and Washington as they consider changes in their aid programs as well as prospects for aid cooperation.

Overview of the Foreign Aid Programs of the United States and Japan

Since 1985 the United States and Japan have been the largest donors of official development assistance among the 18 nations participating in the Development Assistance Committee of the Organization for Economic Cooperation and Development. Japan edged the United States out of the top donor position in 1989 when it disbursed nearly $9 billion in grants and loans to developing countries and multilateral aid organizations in contrast to the United States' net foreign aid disbursements of $7.7 billion. In some respects both countries' ODA programs failed to meet the expectations of the DAC in 1989. Japan's concessional ODA (grants and loans at below-market rates with extended repayment terms) was lower than the standards recommended by the group. The United States was faulted for contributing the equivalent of just 0.15 percent of gross national product, well below the 1989 DAC average of 0.33. (Japan's ODA/GNP ratio was 0.32 in 1989.)

Yet the combined development assistance efforts of the United States and Japan are impressive. Together they contributed 32.8 percent of DAC and non-DAC development assistance during the 1988-89 period, the OECD committee calculated. While both countries, particularly the United States, face domestic pressures on their development assistance programs, the size of their economies seems certain to assure their dominant aid presence in the years ahead. Washington's budget for foreign assistance has remained relatively unchanged in recent years. Tokyo, however, is likely to continue to expand its aid in line with the fourth medium-term plan announced in June 1988. Under this program Japan projected an increase in its ODA commitments to more than $50 billion between 1988 and 1992. Although the Ministry of Foreign Affairs has cautioned that exchange rate changes may disrupt achievement of this goal, significant increases have been earmarked in recent budgets. The initial FY 1990 economic cooperation budget was up 7.8 percent, while 8 percent more has been penciled in for the fiscal year starting April 1.

Arguing for an Aid Alliance

Aid issues long have been part of the U.S.-Japan relationship at the policy level. Following World War II Washington appealed to many countries to take on greater aid responsibilities; Japan's foreign aid program has its roots in the postwar reparations made to countries in Southeast Asia. In the early 1980s foreign aid served as the centerpiece of Tokyo's response to allied pressures to expand Japan's burdensharing efforts. In his recent book on Japan's

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development assistance program, Robert Orr of Stanford University's Kyoto Center for Japanese Studies examined the myriad ways the United States continues to influence Japan's foreign aid policy.[1]

From Washington's View - Recently Washington has intensified its appeal to Japan and others to assume a greater share of global responsibilities and burdens. In testimony presenting the State Department's foreign affairs funding request for FY 1992, Secretary of State James Baker noted that the administration sees greater reliance on "creative responsibility sharing" with allies -- Japan in particular -- as one means of meeting the goals of U.S. international cooperation programs. The United States is looking to such partners as Japan to shoulder some of the financial burden of the Persian Gulf War, the transition of Eastern European countries to market economies, debt relief and investment initiatives in Latin America, Mr. Baker said. Both the Bush administration and Congress recognize that this country's federal budget deficit makes such efforts particularly important, he added.[2]

Ronald Roskens, administrator of the Agency for International Development, recently underscored this point as he outlined AID's proposals for improving development programs and implementation. The United States is moving toward closer collaboration and coordination with other donors and multilateral financial institutions and "will be joining with them in shaping basic policies guiding our common efforts, as well as sharing some of the costs involved," Mr. Roskens told a Senate Appropriations Committee panel reviewing foreign operations.[3] In addition to the initiatives cited by Mr. Baker American officials emphasize the U.S.-Japan policy coordination achieved in recent years in the Philippines, where the two countries are the largest contributors to the multi-billion-dollar Multilateral Assistance Initiative coordinated by the World Bank, and in sub-Saharan Africa, where the United States successfully has encouraged Japan to assume a more active aid role at the same time this country launched the Development Fund for Africa.

From Japan's View - Beyond broad policy coordination, however, have been calls in both Japan and the United States for collaboration on foreign aid at the operational level, a situation seen by development experts as benefiting both the donors and the recipient countries. The Foreign Ministry's 1989 annual report on official development assistance noted that for Japan, "Cooperation with other donor countries or organizations can boost the benefits of its aid to a level that could not be achieved by its own efforts alone, particularly in fields and regions in which Japan's experience, knowledge, and human resources are limited." The report also stressed the importance of donor coordination in individual countries to avoid duplication.

[1]Robert M. Orr Jr., The Emergence of Japan's Foreign Aid Power (New York, N.Y.: Columbia University Press, 1990).

[2]Testimony of Secretary of State James Baker before the House Foreign Affairs Committee, February 6, 1991.

[3]Testimony of Ronald Roskens, administrator, Agency for International Development, before the Subcommittee on Foreign Operations, Senate Appropriations Committee, March 12, 1991.

Many analysts point to staffing and funding levels as two areas in which the American and the Japanese aid programs, respectively, could complement each other. Although the U.S. foreign aid program is facing budgetary constraints, this country is recognized as having a wealth of development assistance experience. In contrast, while Japan increased its ODA budget several-fold during the 1980s, staffing levels did not keep up with the growth, a situation recognized by the Foreign Ministry. In 1988 the number of personnel involved in Japan's aid program was roughly one-third the size of AID's staff. Some aid experts caution, however, that the size of the U.S. aid bureaucracy does not necessarily add to its effectiveness.

Yet a U.S.-Japan aid alliance based on American ideas and Japanese funds troubles Japanese aid officials. American as well as Japanese observers warn against any collaborative approach that might enable the United States to impose its aid system and priorities on Japan. The Foreign Ministry's 1989 ODA report pointed out, for example, that ". . . other donors may learn much from Japan's position as a non-Western nation and its experience as a former aid recipient." Many American aid officials and analysts acknowledge that while the United States has learned hard lessons in its 40-plus years of providing development assistance, it would be unwise for this country to assume it cannot learn from Japan, especially as the United States is beginning to reassess the thrust of its own foreign aid program.

From Recipient Nations' View - Some analysts believe that Japan's request-only development assistance policy and its calibrated approach to providing aid as recipients progress economically are more relevant than the U.S. strategy of advancing projects, which often are in line with broad development objectives. The request-only basis for giving aid requires recipients to propose projects for funding, a situation that some development officials believe is better fitted to developing nations' needs. Lori Forman, an aid expert who was closely involved in discussions aimed at improving U.S.-Japan aid collaboration, notes that the United States can gain from Japan's overall philosophy of economic cooperation. She feels this country particularly should take note of Tokyo's strategy of altering the mix of grants and concessional and nonconcessional loans as the aid recipient is increasingly able to stand on its feet as a trade and an investment partner.[4] Ms. Forman comments that aid coordination is key to ensuring that American programs are not undone by competing programs, particularly in Asia, where Japan has a major aid and investment presence.

Some in the aid community worry that the policy-oriented objectives of U.S. aid could be undermined by the request-based economic approach of Japan's foreign aid program. Some recipient countries reportedly would prefer to play donors against each other in hopes of maximizing development assistance. Cooperation by the donors might minimze these opportunities. Moreover, aid experts, including Mr. Orr, note that the United States and Japan need to be sensitive to recipient nations' worries that their interests could be overtaken by collaborative efforts. Such concerns underscore the need to work toward aid cooperation at the multilateral as well as the bilateral level.

Political Concerns - Analysts in Washington and elsewhere point to aid cooperation as a way to check fears that as Japan's assistance to developing

[4]Interview with Lori Forman, February 20, 1991.

nations grows so will its political influence in these countries. The Japanese see aid, however, as a burdensharing option, not just an economic opportunity. And diplomats in both countries often point out that an aid alliance based on common policies and objectives could provide a constructive element to a bilateral relationship made volatile by other issues.

Yet despite the many strategic interests shared by the United States and Japan and the apparent agreement on initiatives at a broad policy level, many aid officials in both countries have expressed frustration with collaborative efforts at the operational level. Julia Chang Bloch, the former assistant administrator of AID's Bureau for Asia and Near East, has concluded, "As the 1990s begin, U.S.-Japan aid appears stalled between conflict and cooperation: while conflict has not gotten out of hand, cooperation has taken one step backward for every step forward."[5]

Cooperation Initiatives

U.S.-Japan cooperation on aid has been addressed in consultations that have run the gamut, from discussions on overall program goals to talks on specific project collaboration. Impressions about the effectiveness of both also run the gamut.

Consultations - U.S. coordination efforts with Japan are many and varied, taking place at all levels of the Department of State and the Agency for International Development as well as in discussions at the OECD, the OECD's Development Assistance Committee and other multilateral groups, according to AID's Assistant Administrator for Asia and Private Enterprise, Henrietta Holsman Fore.[6] DAC discussions, aimed at coordinating development assistance policies, have provided a forum for the United States and Japan to discuss such problematic issues as tied aid.

Consultations between the administrator of AID and the director general of the Ministry of Foreign Affairs' Economic Cooperation Bureau in 1978 in Shimoda, Japan were a precursor to fairly regular meetings at this level since then. In 1985 President Reagan and then Prime Minister Yasuhiro Nakasone concluded that the State Department's undersecretary for political affairs and one of Japan's deputy foreign ministers should meet annually to concentrate on the strategic aspects of aid. In the policy discussions that followed the United States urged Japan to increase its aid to countries beyond Asia, particularly to sub-Saharan Africa and to countries of strategic importance to the alliance, such as the Middle East. Japan's practice of mixing aid with export credits to win commercial contracts in Third World countries also was targeted during these meetings. (Limits on this practice eventually were set by the OECD.)

[5]Julia Chang Bloch, "A U.S.-Japan Aid Alliance?" in Shafiqul Islam (ed.), Yen for Development: Japanese Foreign Aid and the Politics of Burden-Sharing (New York, N.Y.: Council on Foreign Relations Press, 1991), p. 86.

[6]Prepared statement of Henrietta Holsman Fore, assistant administrator, Bureau for Asia and Private Enterprise, Agency for International Development, before the Subcommittee on Asian and Pacific Affairs, House Committee on Foreign Affairs, March 6, 1991, p. 5.

In May 1988 American and Japanese aid officials held an unofficial meeting in Honolulu to examine development issues affecting Asia as well as to gain a greater understanding of the programs run by both countries and to discuss possible areas for increased collaboration or cooperation. According to one AID official, the meeting was significant for three main reasons: it largely sidestepped policy issues and concentrated on the problems of designing and implementing aid programs; it focused the discussion on three Asian countries (the Philippines, Indonesia and India); and it brought together both field staff and aid policy officials from Washington and Tokyo.[7] Two more Honolulu meetings followed, a second coordinating meeting in October 1989 and informal consultations in January of this year.

The United States and Japan also have agreed to work toward greater cooperation between each nation's private sector in development assistance initiatives. In 1989 AID and Japan's Overseas Economic Cooperation Fund, which administers the country's concessional lending program, conducted conferences in California and Florida to explore ways American businesses could win a larger share of the contracts funded by Japanese foreign aid. The Department of Commerce, working with AID and the Environmental Protection Agency, is proposing a similar conference that would bring American firms with expertise in the environmental area to Tokyo to explore the commercial opportunities presented by Japan's foreign aid program.

Despite these consultations, Ms. Bloch is not alone among aid experts in describing cooperative efforts as lagging rather than gaining momentum. American observers note that although positive steps were taken in the first two Honolulu meetings, these extensive consultations were not used as the basis for the third session. They point to changes in AID's structure, personnel and, to some degree, its priorities as hampering significant progress. Japanese aid officials also reportedly are discouraged by the lack of continuity at recent meetings, although they, too, have been blamed for approaching the consultations with narrow expectations of what could and should be accomplished through aid coordination.

Joint Projects - Although recent U.S.-Japan aid discussions have focused on planning complementary programs rather than jointly administered specific projects, cooperation at the project level also has been a constant goal of both sides in aid consultations over the years. Several joint projects have been initiated between AID and the Japan International Cooperation Agency, which is responsible for implementing Japan's grant assistance. In one long-term collaborative effort involving an institute of postgraduate studies in agri[illegible]ure in Bangladesh, JICA provided infrastructure and training while AID cont[illegible]ibuted technical experts. The two agencies similarly have divided responsibilities for an agricultural development research center in Thailand. Other joint projects between JICA and AID include: a family planning project in Bangladesh; an agricultural development project in Zaire; an ongoing education program in Western Samoa involving Peace Corps and JICA volunteers; and a center for Cambodian refugees in the Philippines, completed in 1982. JICA also joined OECF in working with AID on an agricultural development project in Indonesia.

[7]Norman Nicholson, chief of Planning and Analysis, Asia and Near East Bureau, Agency for International Development, in C.D.A. Ragonese (ed.) Japan's Overseas Development Assistance: Three Perspectives (Washington, D.C.: U.S. National Committee for Pacific Economic Cooperation, 1989), p. 1.

Some aid experts believe collaborating on specific projects is more feasible than harmonizing longer range development plans, but both Japanese and American aid officials have expressed frustration with this approach as well. Joint projects are complicated by different funding cycles, the contrast between Japan's emphasis on providing economic infrastructure and the U.S. focus on extending technical assistance, and the different ways the programs are implemented. Joint financing, which intermingles the donors' funds, increases the difficulties of oversight and management and is seen as more effectively accomplished by multilateral institutions than bilateral initiatives.

Because of the complications inherent in attempting to administer and finance projects jointly, there has been a greater reliance on parallel programming and financing. A parallel approach designates separate portions of a project for each donor and allows for discrete loan agreements and procurement practices. AID and OECF recently have coordinated a small-scale irrigation project in Indonesia and a health technologies project in India using parallel financing. The two agencies reportedly are discussing new possibilities for this approach. Other such efforts by the United States and Japan include a higher education support project in Indonesia.

Yet U.S.-Japan cooperation on a specific project basis still remains the exception rather than the rule. Another route more frequently followed is for Japan to adopt a project after U.S. funding is exhausted, an approach reportedly welcomed by both the United States and recipient countries. In Bangladesh, for example, Japan has taken on some of the funding for a rural electrification program originally financed through AID.

Key Problems -- Key Differences

Some aid experts say that the United States has sent mixed signals about its intentions and commitment to aid collaboration. Ms. Forman, a former AID official, notes that the issue of collaboration has never had a high enough priority to maintain a consistent focus. The Kyoto Center's Mr. Orr, while suggesting that there appears to be a "shift in thinking as to whether joint aid projects are appropriate," adds that there is "insufficient leadership in the U.S. government on cooperative aid-giving."[8] Both Ms. Forman and Mr. Orr cite the lack of consistency from the American side as a major stumbling block.

One problem appears to be the divergent approaches taken by the United States and Japan toward aid collaboration. Development experts note that in recent consultations AID has tended to focus on the policy objectives achievable through collaboration, while Japan's OECF is more eager to tackle the specifics involved in initiating projects. Having cross-purposes, it appears, has been a significant factor in the failure of the United States and Japan to move ahead with aid coordination. Moreover, some aid analysts caution that collaboration will be difficult unless the two countries address problematic differences in their programs.

Underlying many of the difficulties that emerged during the Hawaii consultations are divisions between the American and the Japanese approaches to aid. Among the key differences that aid experts suggest hinder collaboration

[8] Japan Economic Survey, XV, No. 3, March 1991, p. 10.

are: philosophies; objectives and priorities; regional focus; and implementation style. These elements are largely interwoven, which tends to reinforce some of the differences of the two programs.

Although both countries' foreign aid programs were launched after World War II, the U.S. program initially was aimed at reconstruction, while postwar reparations to Southeast Asia formed the roots of Japanese aid efforts. Despite subsequent changes in both programs, one of the sharpest contrasts to emerge is the U.S. emphasis on strategic interests and Japan's traditional stress on commercial concerns. These distinct motivating forces, in turn, have spurred other differences.

The diverse priorities of the Japanese and the American aid programs are reflected in the major recipients of their aid (see Table 1). For more than a decade the bulk of U.S. foreign aid has been directed to the Middle East, while American assistance to Asia gradually has declined. Although Tokyo has responded to international calls to expand the regional scope of its ODA, most aid continues to be directed to Asia, with bilateral assistance there still representing 62.5 percent of the total in 1989. Tokyo acknowledges that because of close economic, historical and geographic ties to Asia, Japan's foreign aid program is likely to continue to focus on this region. This same attention, however, points to another problem in meshing U.S.-Japan aid programs: the economic hue of Tokyo's aid program has enabled expanded Japanese trade and investment in Asia. Some U.S. firms have complained that this approach to aid comes at their expense.

In line with its philosophy of trying to help developing countries achieve economic self-sufficiency, Japan traditionally has focused on improving the economic infrastructure of recipient nations. The American aid program began to move away from capital projects and toward an emphasis on "basic human needs" in the early 1970s. Although Japan followed the United States in adding social and administrative infrastructure to its aid objectives, the share of Japanese foreign aid devoted to economic infrastructure still far outweighs that provided by the United States (see Table 2). Moreover, while military aid long has represented a significant portion of the American program, it remains outside the bounds of Japanese foreign assistance. Only recently has Tokyo cautiously proposed linking aid openly to strategic interests. Beyond responding to Washington's requests to increase aid to such areas of strategic importance as the Middle East, the Foreign Ministry's 1990 ODA report suggests that Japan may want to tie its foreign aid policy more directly to values of freedom and democracy.

The commercial opportunities provided by Japan's approach to development assistance have fueled numerous debates over the quality of Japanese ODA. Since the 1970s the United States has promoted a clear separation of trade promotion and foreign assistance, both in this country's aid efforts and in other donors' programs. In particular, the United States and other donors have urged Japan to reduce its tied aid, which requires aid recipients to purchase goods and services from the donor country. Although Washington also requires that part of its assistance be used to purchase American goods and services, analysts point out that the nature and the regional focus of U.S. foreign aid provide far fewer market opportunities than other donors' programs. Moreover, in contrast to programs geared to basic human needs, economic infrastructure projects such as those favored by Japan involve high value-added exports, including equipment

Table 1: Major Recipients of ODA, 1988/1989

(percent of total ODA by donor country; gross disbursements)

Japan		United States		All DAC Countries	
Indonesia	13.1%	Israel	12.5%	Indonesia	4.1%
China	7.4	Egypt	9.5	Egypt	3.1
Philippines	5.4	Pakistan	3.9	India	2.8
Thailand	4.9	El Salvador	3.3	China	2.8
Bangladesh	3.9	India	1.9	Israel	2.6
India	3.1	Philippines	1.8	Pakistan	2.1
Pakistan	2.8	Pacific Islands	1.6	Bangladesh	2.0
South Korea**	2.2	Guatemala	1.5	Philippines	1.7
Sri Lanka	2.0	Bangladesh	1.4	Tanzania	1.5
Burma (Myanmar)	1.8	Honduras	1.4	Thailand	1.3
Malaysia	1.5	Costa Rica	1.4	Mozambique	1.3
Kenya	1.5	Sudan	1.1	Kenya	1.3
Egypt	1.4	Morocco	1.0	Reunion	1.2
Turkey	1.2	Jamaica	1.0	Martinique	1.0
Nigeria	1.1	Indonesia	0.9	Turkey	1.0
Brazil	1.1	Bolivia	0.8	Ethiopia	1.0
Zambia	0.9	Jordan	0.7	Sudan	0.9
Tanzania	0.8	Dominican Republic	0.7	Senegal	0.9
Ghana	0.8	Peru	0.6	Sri Lanka	0.9
Syria	0.8	Kenya	0.6	Zaire	0.9
Nepal	0.7	Haiti	0.6	Morocco	0.9
Paraguay	0.7	Zaire	0.6	El Salvador	0.7
Bolivia	0.6	Sri Lanka	0.5	Zambia	0.7
Senegal	0.6	Tunisia	0.5	Polynesia, French	0.6
Subtotal	60.4	Subtotal	49.6	Subtotal	37.5
Multilateral	24.0	Multilateral	21.7	Multilateral	27.0
Unallocated	4.8	Unallocated	18.8	Unallocated	11.8
Total ODA*	$10,192	Total ODA*	$9,659	Total ODA*	$50,715

*In millions of dollars.
**The source listed below incorrectly cites North and South Korea.

Source: Organization for Economic Cooperation and Development, Development Cooperation: 1990 Report.

and machinery. In addition, a donor's market presence in the recipient country is reinforced through the maintenance of capital projects.

In recent years Tokyo has made significant progress in untying its ODA loans; 80.5 percent of all ODA loans were untied in 1989, compared to an average 53.9 percent in the four-year period between 1984 and 1987. Many critics contend, however, that the structure of Tokyo's aid program results in more contracts for Japanese businesses than these figures reveal. For example, the request-only policy of Japanese ODA frequently results in the work being awarded to Japanese companies that often have assisted in shaping the project.

Table 2: Major Uses of ODA, 1989

(percent of total ODA by donor country; based on commitments)

	Japan	United States*	All DAC Countries
Social and Administrative Infrastructure	17.5%	19.2%	25.7%
Education	5.8	44.6	10.7
Health and Population	2.6	7.2	6.7
Planning and Public Administration	0.8	2.1	1.6
Other (incl. water supply)	8.4	5.2	6.7
Economic Infrastructure	31.7	2.7	19.1
Transport and Communications	19.3	1.2	11.7
Energy	6.3	1.4	5.4
Other	6.0	--	2.0
Production	16.9	14.3	18.6
Agriculture	10.0	9.6	11.3
Industry, Mining and Construction	6.6	0.3	5.5
Trade, Banking and Tourism	0.3	4.3	1.7
Multisector	1.8	0.1	2.6
Program Assistance	20.6	22.5	12.4
Debt Relief	n.a.	2.1	--
Food Aid	0.6	19.0	5.9
Emergency Aid (other than food)	0.1	1.7	1.6
Administrative Expenses	3.4	5.8	4.0
Unspecified and Support to Private Voluntary Agencies	3.8	13.8	8.0
Total	100.0	100.0	100.0

*U.S. figures are for 1988.

Note: Military aid is not included in DAC's annual report on ODA performance.

Source: Organization for Economic Cooperation and Development, Development Cooperation: 1990 Report.

Another contrast between the two countries' programs that underscores their divergent aid philosophies is Japan's preference for providing loans over grants. Although Tokyo has acknowledged the need to increase grant aid, the share of grants in Japan's bilateral aid disbursements averaged 44.5 percent over the 1985-89 period and was a lower percentage in dollar terms in 1989 (44.8 percent) than in 1988 (45.3 percent). In comparison, nearly all U.S. foreign aid is provided as grants. Although the opposite would seem true, aid experts say both loans and large infrastructure projects require less oversight and administrative work than grants. That situation fits Japan's small, centralized aid bureaucracy. The U.S. aid program, in contrast, generally is decentralized, with significant authority resting with numerous staff in the field.

Prospects for More Effective Aid Cooperation

Several aid experts suggest that a more promising route to development assistance cooperation between the United States and Japan is to focus on a limited number of areas or issues. Former AID official Bloch recommends concentrating on areas where the complementarity of the two programs is most evident. While the United States could assist with development training for Japanese aid personnel and provide guidance for coordination with nongovernmental organizations and other development participants, for example, Japan could share its expertise on working with the private sector. Ms. Bloch adds that Japan also could gain from AID's experience in the areas of evaluation, monitoring and accountability systems; environment; food aid; and regional expertise in Africa and Latin America.[9]

Other aid experts also highlight the environment as a promising sector for aid coordination, particularly because the transborder nature of environmental problems make cooperation in this sector critical. In July 1989 Tokyo announced a significant financial commitment for protecting the environment through its aid program -- Y300 billion ($2.2 billion at Y135=$1.00) to be disbursed over the FY 1989-FY 1991 period. John Sewell, president of the Overseas Development Council, recommends several other development areas the United States and Japan could address together in addition to the environment: the Third World debt crisis; boosting foreign direct investment as a means of channeling funds to developing nations; and reconstruction in areas where regional conflicts are coming to a close.[10]

Mr. Sewell further suggests that U.S.-Japan cooperative efforts could benefit from the development of a broad level of strategic understanding that permits the two programs to proceed in parallel while keeping an eye open for direct collaborative opportunities. The development of such an understanding, Mr. Sewell says, requires three elements: an expanded consultation process; an agenda aimed at resolving the major differences in the two programs; and coordinated responses to several key development challenges.[11] The Kyoto Center's Mr. Orr also urges "some sort of institutionalized, frequent dialogue between Tokyo and Washington on foreign aid so the two countries could jointly decide how to target aid resources." He adds that regular consultations might not result in joint projects but would "help the United States and Japan develop a common economic strategy so that we wouldn't step all over each other's feet."[12]

[9]Bloch, op.cit., pp. 83-84.

[10]John W. Sewell, "A Worthy Endeavor for Japan, the U.S.," Japan Times, February 16, 1991, p. 23.

[11]John W. Sewell, "The United States and Japan in Southeast Asia: Is A Shared Development Agenda Possible?," draft paper prepared for the Center for Strategic and International Studies Project on the U.S.-Japan Economic Relationship in East/Southeast Asia: Toward a Forward-Looking, Joint Approach, June 7-8, 1990, Washington, D.C., p. 20.

[12]Japan Economic Survey, op.cit., p. 10.

Japan currently is working with other countries, too, in coordinating aid projects and reportedly has had better luck harmonizing its aid efforts with other donors, particularly with Canada and Great Britain. Both of these nations have invited OECF to explain the operation of Japan's aid program to their private sectors. Ms. Forman, formerly of AID, suggests that two factors in particular may facilitate Japan's aid cooperation with these countries. Both Canada and Great Britain have more development-oriented programs, which allow a greater focus on procurement. Their programs also are significantly smaller than AID's, which gives a greater impetus to finding opportunities to leverage their development funds.[13] Japan reportedly also is proceeding on reciprocal staff exchanges with several other donor countries.

Outlook

The reevaluations currently being undertaken by the United States and Japan of their foreign aid programs have presented ideas for changes that ironically would result in some role reversals. While the United States is considering an increase in the links between aid and American economic interests, Japan's aid program appears to be taking on a slightly more political orientation (see JEI Report No. 47A, December 14, 1990). The aid priorities and objectives that are expected to emerge also will affect prospects for cooperation.

In 1989 a congressional task force on foreign assistance concluded: "Changes in the international environment and the position of the United States, the emergence of global challenges to U.S. well-being, domestic budgetary pressures . . . and the loss of public and congressional support for the aid program all demand major changes in foreign aid legislation."[14] Since then calls for dramatic changes in the U.S. foreign aid program have increased. Some of the most energetically argued proposals are for reorienting foreign aid to support American commercial objectives.

Although a frequent complaint among some American aid officials and analysts is that Japan's foreign aid program leans too heavily toward benefiting domestic commercial interests, many in this country have begun to argue that U.S. foreign aid needs to play a more relevant role -- as do other nations' aid programs, they say -- in boosting American competitiveness. Among the steps taken toward commercializing U.S. foreign aid were the establishment of a $500 million pool of foreign aid for projects tied to American contracts, a move announced by the Bush administration last May (see JEI Report No. 21B, May 25, 1990), and Capitol Hill's decision last year to increase the limits on AID's authority to extend tied-aid credits. Furthermore, in early March Sen. David Boren (D, Okla.), backed by Sens. Lloyd Bentsen (D, Texas), Robert Byrd (D, W.Va.) and Max Baucus (D, Mont.), introduced the Aid for Trade Act. The measure would redirect U.S. foreign aid to boost American exports, in part by increasing the share of U.S. foreign aid disbursed in the form of credits redeemable for U.S. goods and services related to capital projects.

[13]Forman, op. cit.

[14]Report of the Task Force on Foreign Assistance to the Committee on Foreign Affairs, U.S. House of Representatives (Washington, D.C.: Government Printing Office, February, 1989), p. 29.

While the White House and many in Congress are against tied aid in principle, there is growing agreement that foreign aid could play a role in competing for markets abroad. Japan is seen as a prime competitor in the aid-for-trade field. Yet aid experts doubt that the tied-aid initiatives under consideration in this country have enough punch to dissuade Tokyo from continuing practices that may not involve tied aid directly but are based on a carefully laid network of relationships. Some analysts note that the tied-aid measures being eyed on Capitol Hill, in fact, might increase competition among donors.

The Bush administration has expressed its willingness to work with Congress to give the foreign aid program greater flexibility, an adjustment necessitated by budget constraints and rapidly shifting global demands. Japan's foreign aid program also has been challenged to respond to international political changes as well as to meet the expectations associated with its new position as the world's largest donor. Collaboration will depend on the extent to which the United States is willing to share and Japan is willing to assume the leadership role linked to its position as the world's biggest foreign aid donor.

Some aid analysts have suggested that progress on aid cooperation will be difficult as long as U.S.-Japan relations are tense. Disappointment in this country over Japan's contribution to coalition efforts in the Persian Gulf War has heightened friction in the relationship, already troubled by trade disputes. Assessments of the success and the potential for cooperation vary, depending on the level of coordination considered as well as expectations for the outcome. More pessimistic observers of U.S.-Japan aid cooperation echo doubts that often are applied to the bilateral relationship: too many insurmountable differences, too little agreement on priorities and objectives. Conversely, optimistic observers see a broad commonality of interests and a host of potential benefits from an aid alliance. Yet one aid expert cautions that development is a difficult field, and there is no reason to believe that collaboration in aid should be any easier than unilateral efforts.[15] U.S.-Japan attempts to cooperate on foreign aid may require adjusting expectations and approaches to fit divergent programs as well as a good deal of hard work from both sides.

[15]Forman, op. cit.

For further information, contact Margo Grimm.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

NOTE

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